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## NOTES.

### THE PARIS BOURSE.<sup>1</sup>

M. FLEURY RAVARIN's amendment<sup>2</sup> to the appropriation bill adjusting the budget for 1898, is likely to have a profound influence upon the constitution of the Paris stock market—an influence which will be indirectly felt by the Bourses of the provincial cities. The amendment is a new incident in the contest which has so long been carried on between the authorized stockbrokers and the body of independent dealers—the [so-called] *coulisse*. The former of these groups has, under the law, been clothed with certain privileges, while the latter (though its existence has by implication been recognized in the law of April 28, 1893) has never been accorded more than tolerance, despite the fact that it has rendered services which we cannot, without injustice, fail to recognize.

There is a body of official statistics which will suffice to make clear the relative importance of the transactions of the authorized stockbrokers and of the independent dealers. These statistics represent the revenue derived from the tax upon dealings in stocks,<sup>3</sup> under the operation of the law of April 28, 1893. The figures are for Paris transactions only, the amounts obtained by the tax, in the provinces, not being separately stated.

<sup>1</sup> Translated by H. P. Willis.

<sup>2</sup> This amendment runs as follows: "Substitute for Art. 29 of the law of April 28, 1893, the following provision: Every person in the habit of filling orders for the purchase or sale of stocks, shares, etc., shall, upon order of the officials of the Registry bureau, if stocks officially listed on the Bourse have been transferred, produce the official memoranda of members of the Bourse or shall state the numbers and dates of such memoranda, as well as the names of the authorized brokers [members of the Bourse] who issued them; or, if a transfer of stocks not admitted to the official quotation lists has been made, they shall personally pay the taxes thereon."

<sup>3</sup> "Ten centimes per 1000 francs (5 centimes on purchase and 5 on sale) for cash transactions; and one-half as much for time transactions. The law of December 28, 1895, reduced this tax to one-quarter of this amount when the subject of the transaction is French government stock."

(ooo omitted.)						Authorized brokers	All others
1893 (7 months)	-	-	-	-	-	1,445	2,745
1894	-	-	-	-	-	3,359	6,706
1895	-	-	-	-	-	2,948	6,668
1896	-	-	-	-	-	1,910	2,890
1897	-	-	-	-	-	2,096	3,101

Firms of independent stockbrokers do not by any means perform all of the business carried on through other than authorized dealers. Banking houses, money changers, and financial agents of all sorts have a large share of it. Beside this, a considerable part of these dealings relate to stocks which are not listed on the Paris Bourse, inasmuch as independent brokerage firms do a large business in international arbitrage operations. Nevertheless, there is yet a very considerable residue, and it is easy to see why the authorized brokers have with might and main supported a measure which, if rigidly enforced, will, for the time being at all events, turn over to them the great bulk of the business.

According to tradition, authorized brokers are found as far back as the twelfth century (ordinance of Louis VII, setting apart the Great Bridge (*Grand Pont*), later the Changer's Bridge (*Pont-au-change*), for the dealings of money changers). More confidently, their origin may be dated from the beginning of the fourteenth century (ordinance of Philip the Fair). Down to March 17, 1791, numerous laws or ordinances were promulgated from time to time, either to regulate the business, to fix the number of authorized brokers, or to establish the rate of commissions. On that date there was passed a law which abolished legally established brokers' commissions, and granted to every individual the right to act as a stockbroker, on condition of his conforming to the laws and regulations of the business. The economic condition of France had, however, brought on an era of unbridled speculation. Everything which could possibly be gambled in became the subject of speculation. In order to bring this state of things to a close the decree of June 27, 1793, ordained the closing of the Bourse—a measure which continued in force for two years. Numerous bourses had, however, despite the decree of the convention, been secretly organized, and the threats against brokers remained a dead letter. The government, therefore, in order to remedy these evils,

re-established a legally authorized stock exchange on the sixth of Floréal, year III (April 25, 1795). This, in turn, was closed on the twenty-third of Fructidor, year III (September 9, 1795).

The Bourse was once more re-opened—this time permanently—on the twentieth of Nivôse, year IV (January 10, 1796), but absolute freedom to practice the broker's profession was no longer allowed. The Committees of Public Safety and of Finance were assigned the duty of selecting twenty-five authorized brokers, twenty of whom should perform local banking operations and should buy and sell bills on foreign countries at Paris, the five others having charge of the purchase and sale of coin and of gold and silver bullion. Successive orders regulated the hours of business and renewed the provisions against stockjobbing. The law of the twenty-eighth Ventôse, year IX (March 19, 1801), finally gave definite standing to the members of the Bourse. The authorized brokers were to receive, as formerly, only a single commission, but the law granted them the exclusive right to act as financial agents on the Bourse, to establish the rate of exchange, the price of the public stock, of shares, and of gold and silver bullion, and of testifying before courts and arbitrators as to the fact of transfers, sales, and purchases, and the rates at which these had been made. A deposit, the amount of which was determined by the public authorities, was required of each member.

The ordinance of the third of Messidor, year IX (June 22, 1801), raised the maximum number of authorized brokers to eighty—a number which was never reached. Various police regulations successively established rules governing membership in the Bourse (eligibility being denied to bankrupts and to those who had been condemned to a corporal or ignominious punishment) and prescribed the penalties for encroaching upon the business assigned to the authorized brokers. This whole body of laws was re-enacted and unified in the decree of the twenty-seventh Prairial, year X (June 15, 1802), and in the Commercial Code (*Code de Commerce*), Article 76<sup>1</sup> of which is still in force and enumerates the privileges of the authorized brokers. The decree of

<sup>1</sup> Art. 76, Commercial Code.—Authorized brokers, appointed in the manner prescribed by law, shall have the exclusive right to deal in public securities and in such others as are suitable for quotation on the Bourse, to do business for others in bills of exchange, notes, and all negotiable paper, and to establish the rate of quotation thereof. These authorized brokers may compete with brokers of general goods in buying and selling bullion on commission and in trading therein. They shall have the exclusive right to establish the quotation of bullion.

the fifth Prairial, year XIII (May 25, 1805), raised the number of seats to 100, but nearly one-half of this total remained vacant until 1816, when the number of the authorized brokers in Paris was fixed at sixty — a limit still recognized at the present day.

Candidates for membership in the Bourse must be of French birth, must be full twenty-five years of age, and must have complied with the law governing military service. Bankrupts and persons who have compromised with their creditors without being restored to solvency are not eligible for appointment as authorized brokers. Every candidate must produce a certificate showing that he has been employed at least four years in the establishment of an authorized broker, in a banking institution or mercantile house, or in a solicitor's office. The required deposit is 250,000 francs in Paris. In former times it was required that each authorized broker should be the sole owner of his seat, but since the passage of the law of June 2, 1862, authorized brokers have the right to associate themselves with silent partners. It is, however, still required that the individual who nominally owns the seat be in fact the owner in his own right of at least one-fourth of the sum which represents the price of his place and the amount of the deposit. It is estimated that, adding together the purchase price, the deposit, the amount payable to the Board of Control for the benefit of the general treasury, and the sum necessary as circulating capital, a seat on the Bourse represents an investment of 2.5 million francs. Each of the authorized brokers of Paris has the right of associating with himself four chief clerks who shall assist him in transacting business. These clerks are subject to regulations prescribed by the Board of Control.

Like all public officers, the authorized brokers are recognized as a distinct body of individuals, and are subject to the permanent oversight of the finance minister. Beside this highest authority, there is a Board of Control, consisting of one comptroller and six deputy comptrollers (the number of deputy comptrollers on provincial bourses being in proportion to the number of members), who are annually elected by the general body of the brokers. To this board is assigned the duty of supervising the business of the Bourse and the methods and accounts of all members of the association. It may "censure," "reprimand," or, for a period not exceeding one month, "temporarily suspend" a member, according as his offense is of a more or less serious character. It has the further power, whenever circumstances seem

to demand it, to recommend to the finance minister that he suspend a member, for a period not exceeding two months; or to the head of the state that he revoke the membership rights of any member. The Board of Control is likewise assigned the duty of anticipating or settling all controversies between members; it represents the members as a body, when it is necessary to defend their rights, privileges, and common interests; it decides upon the admission of stocks to the official lists; it publishes the "Official Quotations" and "Bulletin of Protests," which gives a list of the protests registered against the transfer of securities which have been lost or stolen; it is the organ of communication with the ministers and the Bureau of the Public Debt, and provides for the management of vacant seats; it has the administration of the common treasury, fills such orders for purchase or sale of shares in the public debt as are sent in by the government fiscal agents, winds up the affairs of members unable to meet their engagements, and lastly, on the fifteenth and on the last day of each month, it conducts a clearing house for the settlement of all business between members.

It is clear that there could be no analogous organization of independent brokers. Such legislative enactments as relate to them deal only with restrictions — prohibitions upon certain sorts of business — the idea of freedom of trade having never enjoyed more than a limited scope. Four times in the course of the present century — in 1819, 1823, 1850, and 1892 — the body of independent brokers has been driven from the place of meeting where it was in the habit of conducting, on a smaller scale, an evening stock market. They were, however, the subject of a more direct attack in 1859, when twenty-six independent brokers were indicted by the Board of Control of the Bourse, for violation of law. Notwithstanding the pleading of Berryer, the independent brokers were sentenced to a fine of 10,500 francs, the verdict being sustained both on proceedings for appeal and in error. Circumstances so strongly demanded it, however, that the association of unauthorized or independent brokers was resurrected. The establishment of a *modus vivendi* followed, and this has, after some fashion, managed to sustain itself until quite lately.

The very importance of the independent brokers has of itself led them to recognize the necessity of having an organization. By the side of the money changers who carry on a primitive form of business, paying cash for stocks and selling stocks for cash; the financial agents,

who conduct business on more or less legitimate principles; and the banking houses, who themselves fill the orders of their customers directly; there are certain reliable firms with adequate capital at their disposal, which are the real constituents of what is called the Open Bill and Bond Exchange. These firms are classified as registered firms — that is to say, firms who have associated together in order to carry on clearing-house operations among themselves on each settlement day — and unregistered firms. Unregistered firms trade among themselves or with those of the recognized independent brokers who know them personally, charging one-half the regular brokerage. The Open Bond Exchange is a separate body, but certain firms are members of both institutions.

In order to become a recognized dealer in time-paper, an applicant must establish that he is the owner of a capital of at least 500,000 francs. A capital of 100,000 francs is sufficient to obtain recognition as a dealer in bonds. In certain cases the Committee of Control of the independent brokers' association may require of dealers in bills a temporary deposit of 50,000 francs, and of dealers in stocks and bonds a deposit of 25,000 francs. In case any independent broker is found to be unable to meet this payment, his name is stricken from the list and his affairs are wound up.

Dealings on the Paris Bourse are naturally divisible into two quite distinct classes — cash and credit transactions. On the floor of the Bourse (the official market) all securities which have been officially quoted are dealt in for cash,<sup>1</sup> most frequently at the average rate ruling on the date of the transaction. Cash business is invariably carried on by the chief clerks of the authorized brokers.

Dealings on account have to do with specified amounts of stocks or shares, or multiples of these amounts, *e. g.*, 1500 francs government 3 per cent. stock, 1750 francs government 3½ per cent., 25 shares or bonds, 10 shares Bank of France stock, etc. Dealings in French government stock, city of Paris bonds, railway shares, Bank of France shares, and some other securities, are settled but once a month; others

<sup>1</sup> A stock is admitted to quotation on the official lists when the members of the Bourse feel assured that there will be constant and heavy dealings in it. Vouchers as to the organization of the corporation which issues it, and regarding the payment of taxes, fees, etc., must be furnished. The members of the Bourse incur no responsibility through the listing of a stock, any more than they do by rejecting it or by striking it from the list when once listed.

twice (on the 15th and the last day of the month). For this purpose the quotations established by the Bourse furnish all necessary information.

When bargains have been closed payment falls due on the next settlement day; or, occasionally, on the one following it. Only simple margins are currently charged at Paris; that is to say, in this form of transaction the buyer has the right to cancel his purchase on pain of forfeiting his margin. Business is done at fixed rates which have been established by custom, the margin on stocks being 1 franc, 50 centimes, 25, 10, or 5 centimes, and on bills 20 fr., 10 fr., 5 fr. or 2 fr. 50 centimes, etc. Nevertheless by the combination of regular closed bargains with duplicate transactions on option, business very similar to that known as "dealing in puts and calls" is done. This may often result even in a double margin on the transaction.

Credit transactions are regularly settled on the 15th and on the last day of each month in a specified order. On these settling days also occur those transactions which require an extension of time for their consummation. These are so arranged as to be concluded on the settlement day next following, or, occasionally, even on a later one.

The brokerage, as fixed by the regulations, varies from one-eighth to one-fourth of 1 per cent. on cash transactions, its exact amount depending upon whether there are disputed claims, and from 20 to 25 francs on the transferable minimum of stock, and from one-tenth to one-eighth of 1 per cent. on other securities.

The business done by unauthorized brokers is transacted in the same way as in the official market, but at a lower brokerage and with but one settling day each month. The unauthorized dealers in bills have likewise a market where business is done on the cash basis. The unauthorized brokers deal in all sorts of securities, whether they are officially quoted or not.

For a long time past hostile criticisms have been directed against the Paris Bourse. While foreign exchanges have established the principle of freedom in brokerage charges, the association of authorized brokers of Paris has remained precisely the same as at the opening of the century. The number of members has not been increased by a single individual, for, despite the enormous growth of dealings in stocks and shares, the monopolistic character of its constitution has not permitted it to introduce the needed modifications into its statutes.



On the other hand, no greater security is attained by dealing through authorized than through unauthorized brokers. This fact has been clearly established by comparatively recent events.

Speculation no longer needs a demonstration of its usefulness, but it nevertheless continues to be made a scapegoat whenever the Bourse is under discussion. Be this as it may, the authorized brokers are quite as open to the charge of speculation as any others, for though it may be true that the greater part of the business transacted by independent dealers is of a credit or speculative character, no one could for a moment deny that the members of the Bourse derive the best part of their profits from transactions of precisely the same character. It is true, of course, that many of the acts of the unauthorized brokers cannot be approved. Quite recently, indeed, their admission of gold-mining stock has cost French investors very dear. If, however, we should enumerate the stocks which have been listed as gilt-edged by the Bourse itself, but which have, nevertheless, proved disastrous investments, the list would be a long one.

The new attack on the independent brokers has, however, been supported by some new arguments—without validity from the economic point of view, it is true, but indicative of tendencies calculated to cause alarm. It has been pointed out that if we take the 86 firms which constitute the independent registered stockbrokers' association, there are 52 out of a total of 116 members who are foreigners or naturalized aliens, and that the same is true among the silent partners of these active members—138 out of a total of 349. There are thus 190 foreigners or naturalized persons engaged in the business as against 275 Frenchmen. Far the larger number of the independent brokers are Jews. There have not been wanting those who, without further testimony, were ready to cry that the credit of France is at the mercy of a clique of German-Jewish brokers. To those who have any familiarity with business such a statement is the height of absurdity. Nevertheless, in these days of rampant protectionism, and, above all, at a moment when the Jewish question has reached an acute stage heretofore long unknown, this has been sufficient to bring public opinion to the support of the Fleury Ravarin bill.

A circular of information shortly to be issued by the finance minister will show the methods to be employed in reorganizing the stock market. It is impossible for anyone to predict the result of the measure with any certainty. It may be said, however, that either the inde-

pendent brokers, unable to pursue their profession longer in Paris, will depart for foreign exchanges—a step to the detriment of the French market—or, what is more likely, the open stock exchange will be reorganized on some slightly different plan, even perhaps extending its scope, and pursue its business until such time as the monopoly of the authorized brokers shall, as so many similar monopolies have already done, disintegrate under the irresistible force of circumstances.

G. FRANÇOIS.

DOUAI, FRANCE,  
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